

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-11 NEA-14 ISO-00 IO-14 L-03 H-03 PA-04

PRS-01 USIA-15 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-02 SS-20 STR-08 OMB-01 CEA-02 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

DRC-01 FEA-02 SAM-01 AF-10 ARA-16 EUR-25 /234 W

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R 100915Z MAY 74

FM AMEMBASSY KUALA LUMPUR

TO SECSTATE WASHDC 6910

AMEMBASSY JIDDA

C O N F I D E N T I A L KUALA LUMPUR 2161

E.O. 11652: GDS

TAGS: EFIN MY

SUBJECT: ISLAMIC DEVELOPMENT BANK PREPARATORY MEETING

IN JIDDA - MAY 14

REF: KUALA LUMPUR 1292

1. SUMMARY: IDB PREPARATORY COMMITTEE MEETING OPENING
MAY 14 HOPES REACH AGREEMENT ON DRAFT CHARTER SUMMARIZED
REFTEL. AS DRAFT CHARTER CALLS FOR BANK BASED ON ISLAMIC
LAW MAJOR ISSUE FOR MEETING IS WHETHER BANK IS ALSO
FINANCIALLY AND ADMINISTRATIVELY SOUND. MAJOR TECH-
NICAL QUESTION IS MODE OF PAYMENT FOR USE OF MONEY IN
KEEPING WITH ISLAMIC STRICTURES ON INTEREST. GOM IS
PRESSING FOR "MODERATION" ON APPLICATION ISLAMIC PRIN-
CIPLES. GOM IS ALSO CONCERNED ABOUT CONTROL OF IDB
AND IS SEEKING BALANCED REPRESENTATION ON BOARD OF
GOVERNORS AND AMOUNTS OF SUBSCRIPTION. AIM OF GOM IS
TO PREVENT IDB DOMINANCE BY FEW MEMBERS. GOM REMAINS
OPTIMISTIC ABOUT IDB AND EXPECTS JIDDA MEETING TO BE
FOLLOWED SHORTLY BY MINISTERIAL SESSION ESTABLISHING
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IDB. END SUMMARY

2. MFA ASS'T SECRETARY ECONOMIC AFFAIRS (KARIM MARZUKI), WHO ACTIVELY INVOLVED PREPARATORY WORK ON IDB, SUMMARIZED FOR US ON MAY 9, GOM VIEWS OF DRAFT IDB CHARTER WHICH WILL BE CONSIDERED AT JIDDA MEETING. MARZUKI SAID ISLAMIC LAW PROHIBITING INTEREST CHARGES ON LOANS AND PAYING INTEREST ON DEPOSITS PRESENTS MAJOR TECHNICAL PROBLEM TO BE SOLVED AT MEETING. DRAFT CHARTER PERMITS SERVICE CHARGES, CERTAIN FEES, PROFIT SHARING, AND OTHER CHARGING DEVICES: NEVERTHELESS DRAFT RAISES QUESTIONS FOR GOM TECHNOCRATS ABOUT BANKS VIABILITY AND CAPACITY TO EXPAND LOAN OPERATIONS BEYOND INITIAL CAPITAL SUBSCRIPTIONS. GOM FAVORS KEEPING LANGUAGE DRAFT CHARTER GENERAL AND SOMEWHAT AMBIGUOUS ON QUESTION OF INTEREST IN EVENT "SOME LOOPHOLE IN ISLAMIC LAW MIGHT BE DISCOVERED." AS MEANS OF RESOLVING QUESTION OF CHARGES MARZUKI SAYS PREPARATORY COMMITTEE WILL PROBABLY ESTABLISH A BOARD OF RELIGIOUS ELDERS TO ADVISE THE BOARD OF GOVERNORS ON OPERATIONS, AND ASSURE THEY ARE CONSISTENT WITH ISLAMIC LAW.

3. GOM IS CONCERNED THAT FEW LARGE CONTRIBUTOR COUNTRIES (SAUDI ARABIA, LIBYA, KUWAIT AND POSSIBLY UAR) MAY DOMINATE IDB. DRAFT CHARTER PROVIDES FOR BOARD OF GOVERNORS WITH SEVEN MEMBERS, WHICH GOM FEELS TOO SMALL. WHILE ACCEPTING THAT MAJOR CONTRIBUTORS SHOULD HAVE PERMANENT SEATS ON BOARD OF GOVERNORS, GOM FAVORS LARGER BOARD, SO THAT SMALLER DONORS (E.G., MALAYSIA AND INDONESIA) AS WELL AS BORROWING COUNTRIES ARE ADEQUATELY REPRESENTED. GOM WILL PRESS FOR BOARD OF TEN MEMBERS, WITH FIVE FROM LARGE SUBSCRIBERS AND FIVE FROM OTHERS.

4. AS INDICATED REFTEL DRAFT CHARTER PROVIDES FOR INITIAL CAPITAL SUBSCRIPTION OF SDR 1 BILLION, WHICH GOM FEELS IS OVERAMBITIOUS BEGINNING. REFLECTING ITS CRITICAL REVIEW OF DRAFT CHARTER, GOM NOW THINKING OF INITIAL PAID-UP CAPITAL OF APPROXIMATELY US \$500 MILLION. SAUDI ARABIA IS ADVOCATING MUCH LARGER PAID-UP CAPITAL AND IS PREPARED TO MAKE PROPORTIONATELY GREATER CONTRIBUTION. GOM ARGUING FOR SMALLER INITIAL CAPITAL TO AVOID PREDOMINANCE OF ONE CONTRIBUTOR. THEY ARE CONFIDENTIAL

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PROPOSING CAPITALIZATION WHEREIN EACH OF 4-5 MAJOR DONORS WOULD CONTRIBUTE EQUAL AMOUNTS, E.G., \$100 MILLION APIECE, AND THEY BELIEVE OTHER DONORS WILL SUPPORT THEM ON THIS POINT. IN GOM THINKING ALL MEMBERS OF IDB WOULD SUBSCRIBE MINIMUM OF US \$5 MILLION, WITH SOME BETTER OFF COUNTRIES SUBSCRIBING MORE; THEY ENVISAGE FOR THEMSELVES A US \$15-25 MILLION SUBSCRIPTION.

5. MAJOR CONTRIBUTORS WILL BE

SAUDI ARABIA, LIBYA, KUWAIT, UAR AND POSSIBLY ALGERIA.

MARZUKI RETICENT ABOUT SPEAKING OF ALGERIAN PARTICIPATION,

DESPITE OUR PRODDING, AND INDICATED ALGERIANS TAKING

LUKEWARM INTEREST IN IDB. ON THE OTHER HAND, HE

EMPHASIZED THAT UAR, THOUGH NOT OIL PRODUCER, EXPECTED

PLEDGE SUBSTANTIAL AMOUNT TO PROTECT AND TO ENHANCE ITS

LEADERSHIP POSITION IN MUSLIM WORLD.

6. COMMENT: GOM REMAINS OPTIMISTIC THAT IDB WILL BE

REALITY BY THE END OF THE YEAR AS SUFFICIENT NUMBER OF

ISLAMIC CONFERENCE MEMBERS COMMITTED TO IDB CONCEPT

TO MAKE IT GO. FOR THE MALAYSIANS TECHNICAL PROBLEMS

REMAIN STICKY, AND AMONG THE TECHNOCRATS IN KL THERE IS

CONSIDERABLE SKEPTICISM, AS WELL AS CYNICISM, ABOUT THE

IDB. NEVERTHELESS, GOM TOP LEADERSHIP REGARDS IDB A

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